Manulife Investments

Wealth*Styles*



Investing in insurance

Mary and Tom are both 40 years old, have two school-age children and have fully paid off the mortgage on their home in downtown Calgary. Although retirement is still 20 years ahead of them, they've managed their money wisely and invest the maximum amount in their RRSPs each year. They've also set up an RESP for their children's education, and annually contribute as much as they are allowed to that tax-deferral structure.

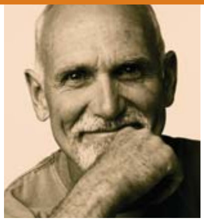
Still, they have money left over to invest. They like the fact that their RRSPs and RESP make it possible for their assets to compound tax-free, maximizing their returns over the long term, and they wonder if there are other investment solutions that provide similar benefits.

The couple's financial advisor, Harry, suggests that they consider universal life insurance. This type of coverage, he explains to them, is unlike other types of insurance in that you can hold a wide selection of investments within a universal life policy. Interest earned by those investments grows on a tax-deferred basis, which makes universal life an attractive option for people like Mary and Tom who are already "maxing-out" their RRSP contributions and are looking for additional tax-advantaged investing opportunities.

The following charts show how the tax-deferral advantages of universal life insurance help investments grow. We have compared Manulife's InnoVision universal life insurance to an alternative investment that does not shelter earnings from tax.

Clearly, the cash value in the InnoVision policy far exceeds the net investment balance of the alternative investment. Moreover, the investment accounts within universal life insurance give Mary and Tom plenty of choice, so they can choose assets that fit their risk profile. Most universal life policies can accommodate everything from the "safe" returns of Guaranteed



Personal information	Joint last-to-die, 40, non smoker
InnoVision rate of return	6%
Initial death benefit	$500,000
Deposits	$25,000 per year for 10 years
Personal tax rate	48%
Before-tax investment rate for alternative investment	6.00%
After-tax investment rate for alternative investment	3.12%

InnoVision				Alternative investment		
Account value	Cash value	Total death benefit	Year	Annual interest	Annual tax payable	Net investment
$ 15,785	$ 13,617	$ 524,219	1	$ 1,500	$ 720	$ 25,780
$ 96,152	$ 93,262	$ 737,273	5	$ 7,983	$ 3,832	$ 137,198
$ 275,623	$ 275,623	$ 1,066,522	10	$ 17,291	$ 8,300	$ 297,177
$ 434,616	$ 434,616	$ 1,083,034	15	$ 20,162	$ 9,678	$ 346,521
$ 603,982	$ 603,982	$ 1,136,506	20	$ 23,510	$ 11,285	$ 404,059
$ 868,440	$ 868,440	$ 1,454,329	25	$ 27,414	$ 13,159	$ 471,150

Interest Contracts (GICs) to the higher potential performance of equities. To provide for diversification, it is often recommended that investors choose a product that has investment accounts that credit interest based on the returns of retail mutual funds.

Mary and Tom are still skeptical. They ask Harry if the management fees associated with universal life insurance will be prohibitively high. That's a legitimate concern, but fortunately, he tells them, some companies have an option that provides a higher credited rate of interest and lower management fees on all investment accounts – and if they choose this option and certain accounts, there is no universal life management fee. Lower fees. Higher returns. No matter how you do the math, Harry says, it means more money for them and their dreams for the future.

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Of course, in addition to its investment advantages, a universal life policy offers all the protection of permanent life insurance. The insurance proceeds of a universal life policy will be paid to Mary and Tom's beneficiary or beneficiaries tax-free. In some cases, the investment portion is included in this amount – a significant advantage compared to other investment vehicles that may be subject to a hefty income tax bill in the year of death. Also, life insurance proceeds are generally protected from certain creditors of the insured.

The combination of tax-deferred investing and the peace of mind that comes with insurance convinced Mary and Tom that this was the right choice for them.

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